

Letter to the Editor submitted to the Telegram on July 18/14

Providing accurate information on Muskrat Falls as requested

Gilbert Bennett, Vice President, Lower Churchill Project

I write in response to Gerry Goodman's letters to the editor in the July 9 and 18, 2014, editions of the Telegram.

Capital costs of the Muskrat Falls Project

In late June 2014, Nalcor Energy provided a capital cost update for the Muskrat Falls Project which is \$6.99 billion. This is based on 98 per cent of engineering now completed and contracts awarded or through advanced evaluation for more than 90 per cent of project costs. Similar to other construction projects in the province and around the world, we are experiencing changing market conditions in an extremely active construction industry. As a result of these factors, combined with planned design enhancements for the project, capital costs for the Muskrat Falls Project have increased by around \$800 million since sanction in December 2012, or around 13 per cent, not an increase of one third as Mr. Goodman stated. These cost changes are being offset by other savings of approximately \$300 million net present value which was negotiated through our financing arrangements. While nobody wants to see an increased cost estimate, the level of variability between estimates at sanction, where we had approximately 40 per cent engineering complete, and our current budget, with engineering and procurement practically complete, is within the range expected for a large-scale project.

Rate of return for the project

Some of the information Mr. Goodman references in his letter is taken from early analysis of the Muskrat Falls Project and before sanction in December 2012. In particular, ratepayers will not be paying the 20 per cent rate of return nor will equity financing be 100 per cent as Mr. Goodman stated.

The total cost of the Muskrat Falls Project is made of up of the facilities capital cost to build the generating plant and transmission equipment, the cost of financing to borrow money, and a return on the equity provided by Nalcor/Government of Newfoundland and Labrador and Emera.

The cost of equity is estimated between 8.4 per cent for generation (which is a fixed internal rate of return typical for a regulated electrical utility) and 8.8 per cent for transmission (the current regulated return on equity approved by the Public Utilities Board). For both project components, the cost is based on the percentage of equity and debt and, along with facilities

capital costs, is passed to Hydro and on to ratepayers with no additional return being earned by Hydro.

Muskrat Falls will return significant value to our province

The Muskrat Falls Project remains the least-cost way to meet our province's electricity needs. While the capital cost of the project is substantial, financing terms are extremely attractive, and the annual cost of financing and operations is very attractive compared to remaining an isolated island system as we are today.

Even though we are developing this resource first and foremost for our province, we also recognize that there will be sufficient excess power to provide for power exports. The value of these export sales is currently estimated at close to \$3 billion in nominal value over the life of the project, which will all be returned to Newfoundland and Labrador.

An important point that Mr. Goodman fails to acknowledge, is that with Muskrat Falls we are investing in a provincial asset that Newfoundlanders and Labradorians will own. No longer will we be paying to purchase fuel to burn at the Holyrood plant. We will have a 100 year or longer asset that will generate significant value and cash flows for our province for many generations of Newfoundlanders and Labradorians, and be able to reliably meet our own electricity needs. While Mr. Goodman calls this a "tax grab", the Government of Newfoundland and Labrador is investing equity in this project and will receive a reasonable return on its investment, all of which is included in the electricity costs to ratepayers. This money will be used by the government to invest in our province from improving the province's infrastructure, funding healthcare and schools, to reducing our debt.